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Arizona Corporation Commission

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**ROBERT L. BURNS, CHAIRMAN  
ANDY TOBIN, COMMISSIONER  
BOYD DUNN, COMMISSIONER  
JUSTIN OLSON, COMMISSIONER  
SANDRA KENNEDY, COMMISSIONER**

**DOCKETED**

MAR 25 2019

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**In the Matter of possible modification to the  
Arizona Corporation Commission's Energy  
Rules.**

**DOCKET NO. RU-00000A-18-0284**

**COMMENTS ON THE COMMISSION'S POSSIBLE MODIFICATONS TO THE  
ENERGY RULES**

The Arizona Competitive Power Alliance (AzCPA) applauds the Arizona Corporation Commission's (ACC) comprehensive reevaluation of its Energy Rules and appreciates the opportunity to participate in workshops and to file written comments.

Technological changes have rewritten the rules of utility operations and economics. In the years since the ACC first approved its first "Renewable Portfolio Standard," renewable energy prices have dropped so low that solar/battery projects routinely win competitive solicitations. The "Duck Curve" has become a reality and power prices are often negative during times that used to be considered peak. Coal plants are unable to compete. Meanwhile, entrepreneurs have created hundreds of companies—which have in turn created thousands of jobs—in an effort to meet the energy needs of consumers indirectly through the wholesale market or directly through the retail market. This transformation of what used to be considered a static industry has created the need for policy makers to review and rewrite the fundamental regulatory framework which governs a rapidly changing industry.

1           The Arizona Competitive Power Alliance (AzCPA) welcomes Commissioner Kennedy's  
2 proposal as well as Commissioner Tobin's Energy Modernization plan and appreciates the  
3 opportunity to provide comments in response to the proposals and to address the questions posed  
4 by staff in the Possible Modification of ACC Energy Rules docket. The Kennedy and Tobin  
5 proposals along with other refinements to the utility resource planning process in Arizona can  
6 decrease ratepayer energy bills and contribute to building a cleaner and stronger economy in  
7 Arizona. Moreover, AzCPA feels that the ACC is best suited to facilitate discussion of clean energy  
8 targets so that all affected stakeholders may equally participate to chart a smart and reasonable path  
9 forward.

10           While parties were given a broad set of questions to answer in the Energy Rules Docket,  
11 AzCPA has only provided comment on the issues it feels are most prudent to address at this stage  
12 of the proceeding. Specifically, AzCPA urges reform to the current IRP process and proposes a  
13 new market-based planning and procurement process whereby the utilities make procurement and  
14 planning decisions based upon competitive bids in order to select the most cost-effective resources.  
15 Moreover, this new process should be Commission-driven and binding on the utilities. AzCPA  
16 supports Commissioner Tobin's longer-term proposed 80% clean energy and 3 GW storage  
17 procurement targets, as well as Commissioner Kennedy's interim and complementary metric of  
18 50% renewable energy by 2028 and offers some preliminary comments on how the Commission  
19 should structure these goals. AzCPA also encourages the Commission to look to the benefits of  
20 Arizona's participating in a regional market and accelerating the extension of customer choice in  
21 the state. Finally, AzCPA seeks clarification on how this proceeding aligns with the current IRP  
22 process, and encourages the Commission to suspend the 2017 IRP process until this rulemaking is  
23 completed.

24           **I.     Public Interest/Cost Benefit, Policy Framework and Resource and**  
25           **Transmission Planning**  
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1 recent IRP, the previously “acknowledged” report is not binding. The utility is under  
2 no obligation to ask the ACC to amend the report in order to accommodate a new project  
3 or strategic direction that the report does not envision.

4 At its core, the IRP process simply provides the incumbent utility with an opportunity to  
5 inform the ACC of the utility’s current plans. This process worked well when the scenarios on  
6 offer were all variations of “estimate load growth...build power plant.” With the advent of  
7 technological innovations, the ACC now has a wide variety of options available in order to meet  
8 anticipated load growth.

9 **b. Reforms to the IRP Process: Resource Planning Should be Market-Tested**  
10 **and Binding**

11 The current IRP process limits the ability of the ACC to meaningfully ensure true  
12 consideration of all the options before them and establish plans that provide the most cost savings  
13 to customers at the least risk. Rather than tweaking the existing IRP process, the ACC should create  
14 a new REST Implementation plan which codifies the asset mix and procurement policies that are  
15 most likely to ensure that the ACC achieves its goals. The ACC may decide to repeal and replace  
16 the existing IRP process, or amend the REST rules, but seeking to salvage the existing IRP process  
17 is not the solution.

18 The new process would start with options of a need or objective (i.e. capacity, energy or  
19 cost effective resource replacement). Once the direction is established by the ACC, the utilities  
20 would then go out to the market and provide to the ACC options with market-based costs for  
21 fulfilling the need/objective. The new resource planning process should base procurement decisions  
22 off of real market bids solicited by the utility through requests for offers (RFOs) or requests for  
23 proposals (RFPs) rather than be based only upon future cost assumptions. By actually soliciting  
24 real-time bids, the utility can more accurately conduct cost comparisons of various portfolios in  
25 order to make the best-fit, least cost decision for ratepayers. Moreover, the best way for utilities to  
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1 determine whether to move forward with natural gas procurement or to continue the life of existing  
2 coal plants is through this type of market-based cost-comparison. This also provides more  
3 transparency for the Commission and stakeholders, and ensures that the ACC is properly informed  
4 and making the best decisions for consumers.

5 If the ACC wants to transform the utility sector and improve upon the current resource  
6 planning framework, it should conduct RFPs in order to get real prices for a basket of solutions and  
7 then determine which ones are in the best long-term interest of consumers. AzCPA encourages the  
8 Commission to move away from the current IRP process and work to develop a planning and  
9 procurement framework that is Commission-approved in order to ensure competition and the most  
10 cost-effective results for ratepayers.

11 Finally, the new REST Implementation Plan should be binding. The ACC needs to be able  
12 to establish the mix of assets and pace of implementation, and conduct (or monitor) the competitive  
13 solicitations.

## 14 **II. Clean Energy, Energy Storage, and Energy Efficiency**

### 15 **a. AzCPA is Supportive of an 80% Clean Energy Target and a 3 GW Storage** 16 **Procurement Target**

17 AzCPA believes Commissioner Kennedy's proposal of 50% renewable energy by 2028,  
18 Commissioner Tobin's goal of 80% clean by 2050 with a 3 GW storage target by 2030 are  
19 reasonable, achievable and complementary. Moreover, the Commission should also establish the  
20 eligibility criteria for resources which can be counted towards these goals in this proceeding, so  
21 that once the targets are set and the criteria are known, the market can facilitate the utilities' ability  
22 to best achieve the targets via competition and pricing. In order to more efficiently achieve this, the  
23 Commission should further eliminate current mandates around the RPS, energy efficiency,  
24 distributed generation, etc...., or let these programs lapse when establishing the new REST Plan.

25 With regard to the energy storage procurement target, given the large amount of megawatts  
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1 of this goal, AzCPA suggests that the Commission examine the value of diversity in the operational  
2 uses for, and characteristics of, the storage, (i.e., distribution v. transmission level, long v. short  
3 duration, etc...) as well as staggering procurement and installation in order to ensure capture of  
4 declining market prices over time, technological advances and lessons learned.

5 **b. Distributed Generation (DG) and Energy Efficiency**

6 AzCPA offers some preliminary thoughts on factoring in DG and energy efficiency into  
7 this plan. DG should count towards the clean energy target only when it reduces demand and not  
8 as a supply resource including DG as supply-side increases the likelihood of counting the resource  
9 twice towards the same goal.

10 The Commission must also take a measured approach in counting energy efficiency towards  
11 a clean energy target. Like distributed generation, energy efficiency is best factored towards a clean  
12 energy target when it reduces demand and such a reduction is measured on actual demand  
13 reductions on a going forward basis.

14 **III. The Commission Should Look to Increase Consumer Choice in Arizona and**  
15 **Consider expanding its market via Regionalization**

16 In addition to Commissioner Tobin's original tripartite goals of clean energy resources,  
17 energy storage and energy efficiency, AzCPA advocates for enhanced consumer choice and greater  
18 regional integration.

19 **a. Retail Access**

20 The AzCPA supports competition. And while technological advances and market forces  
21 may make retail competition inevitable, the transition is likely to be complex and time consuming.  
22 As such, AzCPA first prioritizes ensuring that consumers receive the full benefits of competitive  
23 procurement and wholesale competition through the immediate modernization of REST Rules and  
24 the IRP process. AzCPA also believes ACC can expeditiously expand the existing AG-X program  
25 by removing the caps and expanding the eligible customer base. Additionally, the Commission can  
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1 expedite the launch of the new AG-Y program. The utilities should be compelled to file their rules  
2 for this expansion in 2019, rather than in conjunction with their next general rate case. Given the  
3 timing of procurement, development and construction cycles, having the rules in place this year  
4 would allow eligible customers to secure the benefits of solar federal tax incentives prior to their  
5 expiration in 2023. Any delay in the development of an expanded retail program would likely  
6 preclude realization of these benefits and reduce the efficacy of the program to deliver low cost  
7 energy and attract new businesses to the State. To the extent the expanded program demonstrates  
8 success, the ACC can the build off this success to offer a broader range of consumers with retail  
9 access, while taking the time to ensure high regulatory and consumer protection standards are  
10 maintained.

#### 11 **b. Consideration of Regionalization**

12 The Modernization Plan and Commissioner Kennedy's 50% RPS proposal benefit from the  
13 fact that they propose a broad range of solutions. AzCPA urges the ACC to continue in this vein  
14 and expanding the range of solutions by looking to neighboring markets. Ultimately, the ACC may  
15 want to help create or join a regional market, or rely on the Arizona Independent Scheduling  
16 Administrator (AISA) during this transition.

### 17 **IV. Process-Related Issues**

#### 18 **a. Clarification as to Status of the Current IRP Process**

19 On March 29<sup>th</sup>, the Commission did not acknowledge the utilities' IRPs and ruled that the  
20 Commission would open a separate rulemaking to consider reforms to the IRP process<sup>1</sup>. The  
21 Commission also established a new timeline for submission of IRP plans. Based upon this  
22 rulemaking and that order, it is not clear whether the 2017 IRP process is fully suspended and will  
23 now be dealt with in this proceeding, or if the Commission plans to deal with the Modernization  
24 Plan and the 2017 IRP in parallel, but separate proceedings. AzCPA seeks clarification from the  
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26 <sup>1</sup> Decision No. 76632

Commission on this issue; and proposes that the Commission indefinitely suspend the IRP proceeding until the Modernization Plan is finalized so that future resource planning can reflect the Commission's direction.

#### **V. Competitive Procurement**

The ACC should make clear that its policy of competitive procurement applies to the revised energy targets. R-14-2-705 B States that:

A load-serving entity shall use an RFP process as its primary acquisition process for the wholesale acquisition of energy and capacity, unless one of the following exceptions applies:

As written, the rule does not provide an exemption for storage projects. Battery storage should fall into the broad category of "energy and capacity" and is otherwise not contemplated in any of the exceptions. We believe that the ACC should make clear that any storage projects that the utilities undertake must be the result of a competitive bidding process that ensures consumers receive the best value possible. In order to achieve this result, solicitations should not preclude any procurement or ownership structure, whether utility development-ownership, build transfers, or power purchase agreements, and that each such structure should be required to compete against the other to promote optimized results.

We also believe that new solar projects - with or without battery storage - now fall under the competitive bidding requirements. Previously, solar projects could have been exempted from competitive procurement under the exemptions to section B.

Exception B 6 states:

The transaction is necessary for the load-serving entity to satisfy an obligation under the Renewable Energy Standard rules.

Recent technological and economic developments have rendered this exception moot. The price of solar/storage projects have decreased such that they now routinely win RFPs. There is no longer a need to have a non-competitive procurement process in order to acquire the resources



1 needed to meet the Renewable Energy Standard rules. We believe that there are so many  
2 competitive options available for the utility to meet its requirements that the company cannot argue  
3 that a specific transaction can be termed "necessary" in order to be exempted from the competitive  
4 procurement requirement.

5 We believe that competitive procurement is required under the existing rules, and we will  
6 emphasize that competitive procurement is a wise policy. Not only do third-party developers have  
7 lower cost of capital than load serving entities, but third-party ownership also serves to shield  
8 consumers from the risk of cost overruns or future obsolescence.

9  
10 **VI. Conclusion**

11 The AzCPA looks forward to working with the ACC and parties in order help the ACC  
12 implement this modern energy vision.

13  
14 RESPECTFULLY SUBMITTED this 25<sup>th</sup> day of March 2019

15 By: Greg Patterson,

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All Parties of Record